Item 2

115
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1953

Summary of the President's 1954 Budget

Summary of the Budget of the National Government of Canada for the Fiscal Year Ending March 31, 1954

Preliminary Digest of Suggestions for Internal Revenue Revision Submitted to the Joint Committee on Internal Revenue Taxation

Federal Excise-Tax and Collection Data

Estimates of Federal Receipts for Fiscal Years 1953 and 1954

Digest of Testimony Presented Before the Ways and Means Committee Relative to the President's Recommendations to Extend for Six Months the Excess-Profits Tax

Excess Profits Tax

Excise Tax on Admissions

Examples Illustrating the Application of Section 206 of H. R. 6426

Hearing - Reorganization of the Bureau of Internal Revenue - September 25, 1953

1954

Summary of the President's 1955 Budget

Summary of Committee on Finance Hearings on H. R. 8224, a Bill to Reduce Excise Taxes, and for Other Purposes

Present Law Individual Income, Estate Gift, and Excise Tax Rates

Historical Data Pertaining to the Individual Income Tax 1913-54

Comparison of Tax Burdens and Rates on a Single Person, a Head of Household, and a Married Couple

1955

The Internal Revenue Service - Its Reorganization and Administration

Federal Excise-Tax Data

Summary of the President's 1956 Budget

Data on Sections 462 and 452 of the Internal Revenue Code of 1954

Renegotiation Act of 1951 as Amended Through August 3, 1955

Cross-Reference Within the Internal Revenue Code of 1954 as of January 1, 1956

Alternative Plans for Reducing the Individual Income Tax Burden

1956

Report to the Subcommittee on Excise Tax Technical and Administrative Problems

Data on Minor Tax Bills Pending Before the Committee on Finance on January 6, 1956

Report of the Joint Committee on Internal Revenue Taxation Relating to Renegotiation

Terminology of the Internal Revenue Code of 1954

Application of the Tax on Transportation of Persons to Foreign Travel Under Present Law, H. R. 5265, as Passed by the House of Representatives, and H. R. 5265, as Passed by the Senate

Estimates of Federal Receipts for Fiscal Years 1956 and 1957

Summary of the Senate Amendments to Title II of H. R. 10660, the Highway Revenue Act of 1956

Data on Title II of H. R. 10660, the Highway Revenue Act of 1956

Renegotiation Act of 1951 Amended

1953

STAFF DATA

EXCESS PROFITS TAX

PREPARED BY THE

STAFF OF THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION

FOR USE OF THE

COMMITTEE ON FINANCE

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EXCESS PROFITS TAX

Introduction

The excess profits tax law was enacted on January 3, 1951, and applied to taxable years ending after June 30, 1950. It is terminated under existing law as of July 1, 1953. The bill H. R. 5898 extends until December 31, 1953, the period with respect to which the excess profits tax shall be effective.

This document is divided into the following parts:

Part I. Analysis of the fiscal situation.

Part II. Arguments for and against reenactment of the excess profits tax.

A discussion of each part follows:

Part I. Analysis of the Fiscal Situation

Revenue picture

[In millions of dollars]

	Fiscal year—	
	1953	1952
Expenditures	74, 607	66, 145
Receipts	65, 218	62, 129
Deficit	9, 389	4, 017

The deficit of $9,389 million was financed as follows:

	Millions
Increase in public debt	$6, 966
Reduction in general fund balance	2, 299
Excess of receipts in trust-fund accounts	125
Total budget deficit	9, 389

[In millions of dollars]

	Actual as of June 30—	
	1953	1952
Gross public debt	266, 071	259, 105

The estimated public debt for the end of fiscal year 1953 in the January budget was $263,900 million. There is therefore an increase in the debt over the January budget estimate of $2,171 million. The estimated public debt at the end of the fiscal year ending June 30, 1954,

in the January budget is $273,800 million. The maximum debt limit is $275 billion. The Treasury is anticipating issuing from $5½ to $6 billion tax-anticipation notes to take care of the quarter through March 15 of next year. Purchasers of these tax-anticipation notes will offset them against tax payments in March.

Budget outlook for the fiscal year 1954

[In billions of dollars]

	Truman budget	Revised Eisenhower budget	Staff
Expenditures	78. 6	74. 1	73. 5
Receipts	68. 7	67. 5	67. 6
Deficit	9. 9	6. 6	5. 9

Adjustment for Eisenhower recommendations for extension of excess profits tax

If H. R. 5898 is adopted, the deficit of $6.6 billion will be reduced to $5.8 billion under the Treasury estimate. Under the staff estimate, the $5.9 billion deficit will be reduced to $5.2 billion.

The temporary taxes, which expire or are reduced under the Revenue Act of 1951:

	Expiration or reduction date
Excess profits tax	July 1, 1953
Income tax:	
Corporation	Apr. 1, 1954
Individual	Jan. 1, 1954
Excise taxes	Apr. 1, 1954

Effect of expirations on budget:

[In millions of dollars]

	Fiscal year 1954		Full year	
	Treasury	Staff	Treasury	Staff
Excess profits tax	800	700	2, 000	2, 000
Income tax, reducing corporate normal rate by 5 percent points			2, 000	2, 000
Individual income tax	1, 100	1, 100	3, 000	3, 000
Excise taxes	200	200	1, 000	1, 150
Total	2, 100	2, 000	8, 000	8, 150

Part II. Arguments For and Against Reenactment of the Excess Profits Tax

Arguments advanced in support of the administration's proposal to extend the excess profits tax to December 31, 1953

The following arguments are advanced to support an extension of the excess profits tax to December 31, 1953.

(1) The extension is necessary to help finance the deficit for the fiscal year ended June 30, 1954. The present deficit is estimated at $6.6 billion. With such a deficit no immediate tax reduction can safely be made.

(2) An extension of a tax imposed under existing law for 6 months is preferable to any short-term substitute tax.

(3) Even if the excess profits tax is not renewed, most corporations will still pay an excess profits tax for the full calendar year 1953. The extension simply means that the tax will be applied at the full rate instead of half the rate, that is, a 30-percent rate instead of a 15-percent rate.

(4) There are many inequities and hardships which occur from various provisions of the internal revenue laws. These affect many corporations and a great many individuals. It does not seem fair to let the first tax reduction benefit a small group of corporations at least 6 months ahead of any relief for other taxpayers.

(5) The extension of the excess profits tax for 6 months will give the administration time to get control of the budget and will lessen a gamble with national security.

(6) The President and the Secretary of the Treasury have assured the Congress that they will oppose any further extension of the excess profits tax beyond December 31, 1953. Thus, the businessman now has assurance that the tax will go off on December 31, 1953, and can make plans accordingly.

(7) The effect of the extension of the excess profits tax will be not to single out a small group of taxpayers for early relief ahead of other taxpayers.

(8) The extension of the excess profits tax will show a determination on the part of the administration to balance the budget and to establish a sound economy and stop inflation.

(9) It is impossible to provide adequate relief provisions without taking a large part of the revenue to be derived from the 6-month extension. It would be a mistake to patch the law up with relief provisions for a 6-month period.

(10) An increase in the corporate rate to make up for the loss in revenue caused by not extending the excess profits tax would affect some 400,000 corporations, both large and small. The rate would have to be increased at least 2 percentage points to provide the equivalent revenue. This would add a great burden to the many small corporations whose earnings have not reached the excess profits tax level.

(11) If the excess profits tax were not extended to December 31, 1953, relief would be given to excess profits taxpayers ahead of individual income taxpayers. If the tax is extended to December 31, 1953, both individual income taxpayers and excess profits taxpayers will receive relief at the same time.

(12) If individual income-tax relief were moved back to July 1, 1953, to coincide with the termination date now in the law for the excess-profits tax, it would mean a reduction in receipts for the fiscal year 1954 of $1.5 billion. This would add greatly to the deficit.

ARGUMENTS ADVANCED AGAINST THE ADMINISTRATION'S PROPOSAL TO EXTEND THE EXCESS-PROFITS TAX TO DECEMBER 31, 1953

The following arguments are advanced ~~to support~~ AGAINST an extension of the excess-profits tax to December 31, 1953:

(1) The excess-profits tax is hurting small, middle-sized, and growing businesses. It is preventing business from expanding and moving ahead. This is conceded by the administration for, in his message to the Congress of May 20, the President said:

> Though the name suggests that only excess profits are taxed, the tax actually penalizes thrift and efficiency and hampers business expansion. Its impact is especially hard on successful small business which must depend on retained earnings for growth.

(2) A renewal of excess-profits tax even for a short period is unfair to the corporations which are struggling to maintain ~~as~~ secure a foothold in a competitive field.

(3) Many of the larger corporations, having already established adequate credits, will pay little or no excess-profits tax for 1953. As a result of the excess-profits tax some corporations will be in a position to drive their competitors out of business. AND

(4) The reenactment of the excess profits tax will allow some corporations to get larger excess profits tax carrybacks to be applied against their 1952 tax liability than is possible under existing law. If the law was not renewed only a pro rata part of such carrybacks would be allowed. The extension would permit a full year carryback based upon the full 12 months of 1953 instead of upon a period of 6 months.

(5) The excess profits tax is designed primarily as a control measure to prevent profiteering from the Korean war. The administration has dropped practically all controls. It is inconsistent to extend this control.

(6) The excess profits tax operates erratically between different corporations. If it is to be continued, it will need considerable amendment to take care of the hardship cases. The Secretary has not been able to compile information showing how the tax is affecting business for the year 1952.

(7) Testimony before the Ways and Means Committee was overwhelmingly against the tax. Of the 109 public witnesses, 104 testified against the extension, and only 5 testified for the extension.

(8) Business had every reason to assume that the excess profits tax would terminate on July 1, 1953. The law itself fixed the termination date as of July 1, 1953, the present administration was elected upon a program to reduce taxes, and the Committee on Ways and Means voted on February 17, 1953, that the excess profits tax should not be extended. Upon this assurance, reserves were set up to provide for expansion and growth out of money which would have been payable in taxes to the Government without the July 1, 1953, termination date. These plans will have to be halted and the amounts already set aside for this purpose will now have to go for payment of the excess profits tax. The situation is particularly acute at this time because corporations will be required to pay 45 percent of their 1953 tax liability on March 15, 1953, and 45 percent on June 15, leaving 5 percent to be paid on September 15 and 5 percent on December 15.

(9) An extension of the excess profits tax to December 31, 1953, will cause some corporations to pay current excess profits taxes as late as February 15, 1955. This is shown by the following table.

Excess profits tax rates under present law compared with those effective if termination date is moved to Dec. 31, 1953

	Excess profits tax rate (present law)	Excess profits tax rate if termination date moved to Dec. 31, 1953	Due date of return
Fiscal year ending—	*Percent*	*Percent*	
June 30, 1953	30. 0	30. 0	Sept. 15, 1953
July 31, 1953	27. 5	30. 0	Oct. 15, 1953
Aug. 31, 1953	25. 0	30. 0	Nov. 15, 1953
Sept. 30, 1953	22. 5	30. 0	Dec. 15, 1953
Oct. 31, 1953	20. 0	30. 0	Jan. 15, 1954
Nov. 30, 1953	17. 5	30. 0	Feb. 15, 1954
Dec. 31, 1953	15. 0	30. 0	Mar. 15, 1954
Jan. 31, 1954	12. 5	27. 5	Apr. 15, 1954
Feb. 28, 1954	10. 0	25. 0	May 15, 1954
Mar. 31, 1954	7. 5	22. 5	June 15, 1954
Apr. 30, 1954	5. 0	20. 0	July 15, 1954
May 31, 1954	2. 5	17. 5	Aug. 15, 1954
June 30, 1954	0	15. 0	Sept. 15, 1954
July 31, 1954	0	12. 5	Oct. 15, 1954
Aug. 31, 1954	0	10. 0	Nov. 15, 1954
Sept. 30, 1954	0	7. 5	Dec. 15, 1954
Oct. 31, 1954	0	5. 0	Jan. 15, 1955
Nov. 30, 1954	0	2. 5	Feb. 15, 1955
Dec. 31, 1954	0	0	Mar. 15, 1955

It is estimated, as shown by the following table, that 1,260 corporations, will be paying excess profits taxes on February 15, 1955, and those with fiscal years ending on June 30, 1954, will be paying excess profits taxes from September 15, 1954, to February 15, 1955. Under existing law these corporations are free of excess profits taxes for fiscal years ending on June 30, 1954, and ending on any subsequent year.

Corporation returns with excess profits tax liability, estimated number of returns, 1953

	Number	Percent distribution
Tax year ending—		
July 31, 1953	798	1. 90
Aug. 31, 1953	945	2. 25
Sept. 30, 1953	1, 554	3. 70
Dec. 31, 1953	1, 113	2. 65
Nov. 30, 1953	1, 260	3. 00
Jan. 31, 1954	1, 260	3. 00
Feb. 28, 1954	945	2. 25
Mar. 31, 1954	1, 722	4. 10
Apr. 30, 1954	1, 113	2. 65
May 31, 1954	1, 008	2. 40
June 30, 1954	2, 730	6. 50
Subtotal, fiscal year returns	14, 448	34. 40
Dec. 31, 1953—calendar year	27, 552	65. 60
Total	42, 000	100. 00

(10) The estimate of $800 million to be derived from the excess profits tax is elusive. The Secretary has not furnished to the committee of Congress sufficient figures upon which to base an accurate figure of what increased revenue, if any, will be derived from the extension. The estimate does not take into account the loss from carrybacks. It does not take into account the added revenue which would come from excessive profits subject to renegotiation. It does not take into account the saving to the Government in the cost of materials purchased under contracts with the Government. If the excess profits tax is not reenacted, this item of cost will be eliminated. It does not take into account how the excess profits tax reduces revenue from other sources. Henry Laube, president of Remington Co. of Auburn, N. Y., stated that—

> If we do not have to pay extra excess profits tax for the period after June 30, which I estimate at $39,000 to $40,000, and go ahead with this program, our figures indicate that this expansion program will increase our earnings before taxes next year at least $200,000. And at least a half of that or the sum of $100,000 will come here to Washington as taxes. So instead of your being out $39,000, you are going to be ahead $61,000 next year.

(11) An outstanding economist, who is familiar with business operations, stated that at the outside not more than $400 million in net revenue could be secured from reenactment of the excess profits tax for the 6-month period, and possibly much less. Is it worth gambling with our economy to secure this uncertain gain, when such action might unwillingly bring on a recession?

(12) Tax collections for the fiscal year just closed are $65.2 billion, the highest in the history of the country. It is unthinkable that taxes should be again increased. It is the Government spending that should be reduced, and not the taxes that should be increased.

(13) Most economists are predicting some recession in the first half of the calendar year 1954. To impose additional taxes now is to jeopardize the economic welfare of the country. In a period of retrenchment in Government spending, taxes should not be increased

but rather reduced to provide a cushion to take up the decline in purchasing power caused by reductions in Federal spending.

(14) The need for revenue is no reason to enact an inequitable law. The tax has been demonstrated to be so unfair that it will seriously hurt small and growing businesses if adequate relief provisions are not incorporated into the law. The enactment of adequate relief provisions will, as the Secretary of the Treasury concedes, elimate most of the revenue to be derived from the reenactment of the tax.

(15) The excess profits tax is not a tax on excess profits as such, but is a tax on a large part of normal profits. It is estimated that if corporations were allowed a credit of 100 percent of their base period earnings for taxable years ending on and after December 31, 1953, the revenue effect on the fiscal year 1954 would be to reduce revenues by approximately $560 million.

(16) An estimated deficit of $6.6 billion should not be a sufficient basis for reenacting the excess profits tax. Experience has shown that unfair, inequitable, and oppressive taxes do not result in creating revenue. When the Revenue Act of 1945, terminating World War II excess profits tax and making other tax reductions, was considered by the Finance Committee in October of 1945, there was an estimated deficit for the fiscal year ended June 30, 1946, of $31.3 billion. The actual deficit for that year turned out to be $20.7 billion. When H. R. 1, providing for individual income tax reduction, was before the Senate Finance Committee on May 14, 1947, the estimated deficit for the fiscal year ended June 30, 1947, was $3.6 billion. But when that year ended, there was an actual surplus of $754 million and, after the enactment of the individual income tax reduction bill of the 80th Congress, there was a surplus of $8.4 billion for the fiscal year ended June 30, 1948. This shows that oppressive taxes retard revenue receipts.